



March 15th, 2023

Cheryl Laskowski, Ph.D.
California Air Resources Board
1001 I Street
Sacramento, CA 95814

Re: Low Carbon Fuel Standard February 2023 Workshop

Dear Dr. Laskowski,

SJL is an energy services holding company based in Folsom, New Jersey. It is comprised of two regulated natural gas utilities serving natural gas to approximately 700,000 South Jersey Gas and Elizabethtown Gas customers as well as several non utility businesses which promote energy efficiency, sustainability, and renewable energy development. SJL strongly supports our nation's transition to a carbon-free economy and, accordingly, has developed a comprehensive clean energy plan that includes a timeline to achieve carbon-neutral operations and a series of sustainability initiatives including:

- Achieve a 70% carbon reduction of operational emissions and consumption by the year 2030
- Achieve 100% carbon neutral operations by 2040
- Commit at least 25% of annual capital expenditures on sustainability projects

SJL has become a leading developer of dairy digester projects in the United States. These projects generate renewable natural gas (RNG) which can be used as a vehicle fuel to power trucks, buses, and cars, as well as for other traditional applications such as home heating, cooking and industrial uses. SJL works closely with local dairy farmers, local utilities, the California Air Resources Board (CARB), the California Public Utility Commission (CPUC), the California Energy Commission (CEC), the Environmental Protection Agency (EPA), and the dairy industry to develop projects that reduce greenhouse gas (GHG) emissions, protect local air and water quality, create local jobs, and provide a new revenue stream along with other meaningful benefits to the dairy.

The California Low Carbon Fuel Standard (LCFS) program is the nation's leading and most successful example of a market-based carbon reduction regulation for the transportation sector. The program has been instrumental in supporting the growth of a broad portfolio of low carbon transportation fuels in California, their associated reductions in carbon and pollutant emissions, job growth in clean energy sectors, and other benefits. SJL would like to commend CARB on the

implementation of this successful program, as well as the considerable and significant efforts undertaken to manage and sustain it. Despite clarifications provided by CARB during its most recent LCFS workshop on February 22, 2023 (the Workshop), SJI remains concerned that CARB is considering changes to the LCFS program that pose some serious threats to existing RNG projects, projects under development, and future investment in development projects. Generally, SJI is concerned about ongoing inconsistencies with respect to the LCFS program proposals being advanced by CARB staff. For instance:

- CARB staff repeatedly asserted two things: 1) that they want RNG to remain a part of the LCFS program and 2) that the best use of RNG is codified in the 2022 Scoping Plan for Achieving Carbon Neutrality (2022 Scoping Plan), and that this is not in the transportation sector. The 2022 Scoping Plan is explicitly referred to as a roadmap and is informed by scenario modeling. The 2022 Scoping Plan recognizes that “biomethane currently displaces fossil fuels in transportation and will likely continue to play” a role in the transportation sector. Staff’s repeated assertions regarding the “best” use of RNG is deterministic, and effectively turns the 2022 Scoping Plan into a requirement, rather than a roadmap.
- CARB staff are proposing constraints on deliverability requirements for RNG used in vehicles, but not for RNG used in hydrogen production without a clear rationale for this distinction.
- CARB staff presented preliminary modeling results for a 30% carbon intensity (CI) reduction by 2030 and 90% CI reduction by 2045 (beginning on Slide 45 of Staff Presentation). Most notably, on Slide 51 of the Staff Presentation, CARB staff are showing preliminary LCFS credit price estimates. SJI notes that the forecasted LCFS credit price presented is equal to or exceeds the price cap for 50% of the time between 2024 and 2045. SJI understands that there is a price cap that will help prevent “dramatic price spikes”; however, how can the LCFS program succeed if the marginal low carbon fuel provider or providers are only receiving a fraction of the LCFS credit price required to deliver the fuel to California year-over-year?

It is critical that staff allow markets—including end users that face decarbonization costs—to determine the most cost-effective use of various energy carriers, rather than dictating based on a pre-conceived outcome. SJI appreciates the efforts of harmonizing policies using the 2022 Scoping Plan as a roadmap, however, the extent to which CARB staff are conflating the 2022 Scoping Plan’s scenario modeling as dogma leads to concerning policy decisions that will have potentially harmful ramifications. Accordingly, SJI cautions against this type of deterministic policy-making, as it can have lasting and unintended consequences that are detrimental to a) the communities in which we operate through reduced investment and b) the environment through the reversion to practices of venting uncaptured methane. Regardless, it is critical that CARB recognizes that the use of the existing gas systems does allow RNG to be a flexible resource that can also be used as a more cost effective low carbon solution for other applications such as building heating, cooking, and “hard to electrify” applications.

SJI understands the challenges of modeling the LCFS program and determining the CI reduction targets given the uncertain nature of low carbon fuel supply and demand. However, SJI urges

CARB staff to conduct its modeling in a manner that will determine the most feasible CI reduction achievable in 2030 (and beyond). As it is currently described, the LCFS program modeling being done by CARB is deterministic: The CI reduction target is an input into the CATS model, and LCFS *compliance* is an output of the model (with some optimization for cost). SJI recommends that CARB staff should be modeling the supply-demand balance of low carbon fuels in the context of overall transportation fuel demand, and the CI reduction achieved in a target year (e.g., 2030) or years should be an output of the modeling exercise, rather than an input. This approach will enable a more realistic, data-driven CI reduction target to be established, rather than using an iterative approach of determining the feasibility of compliance with different predetermined CI reduction targets.

As a member of the RNG Coalition, SJI supports the Coalition's detailed response to the CARB Workshop. Additionally, SJI would like to comment more specifically on two items, 1) potential changes to RNG deliverability requirements (book-and-claim) and 2) the potential limitations on avoided methane crediting.

RNG Deliverability Requirements

In a previous workshop on the LCFS program in November 2022, CARB staff raised the idea of harmonizing delivery requirements between electricity and RNG. During that workshop, CARB's scenario modeling implied that they'd be eliminating eligibility in 2025 for non-Western RNG projects. It appears that in the most recent Workshop, CARB staff are proposing that this restriction on deliverability be shifted later to 2028, and that certain types of RNG projects would be grandfathered in, i.e. that they would *not* be subject to the revised deliverability requirements. SJI seeks clarification on the proposal and its implementation. More specifically, SJI seeks to understand what projects would be grandfathered in to the LCFS program using the existing book-and-claim provisions, and for how long. SJI is concerned that CARB staff may propose aligning the LCFS crediting period (of 10 years) with the change in deliverability requirements.

SJI stands by our comments submitted previously: SJI recommends against any changes to the book-and-claim accounting mechanism for tracking all use of renewable gases. The current framework supports the optimized growth of the RNG market and allows RNG to contribute most fully to California's GHG emissions reduction goals and leadership on climate issues.

Avoided Methane Emissions

SJI appreciates that CARB staff clarified a proposed approach to phasing out avoided methane emissions compared to what was discussed previously during the LCFS workshop in November 2022. Assuming that a project is initiated prior to 2030, the opportunity to extend the avoided methane emission crediting period to 2040 using a truncated crediting period is a reasonable and welcomed proposal. The opportunity for extension of avoided methane emissions crediting to 2040, however, requires CARB staff to confirm that projects that are grandfathered into the book-and-claim accounting system for RNG will *not* have those deliverability requirements changed during the review of the carbon intensity of the low carbon fuel. For instance, if an RNG project located in the Midwest has a low carbon fuel pathway certified by CARB on January 1, 2026, then

its crediting period should extend to December 31, 2035 and it should be allowed to deliver fuel to California using book-and-claim accounting. Upon review of the fuel pathway in early 2036, the RNG project should be eligible for a truncated crediting period, January 1, 2036 to December 31, 2039 and it should continue to be allowed to deliver fuel to California using book-and-claim accounting. It is critical that this illustrative project not be subject to revised deliverability requirements during the review of its fuel pathway recertification. If this illustrative project is subject to revised deliverability requirements, then CARB's proposed approach to granting truncated crediting periods up to 2040 is effectively irrelevant for out-of-state projects.

SJI remains concerned that without clearer guidance on the proposed changes to deliverability requirements and avoided methane emissions crediting, any proposed rulemaking will have a chilling effect on future investments in dairy RNG projects. We are concerned that CARB staff is contemplating changes to the regulatory text that will likely result in the unintended consequence of hindering the ability of investors like SJI to continue to make substantial investments in RNG projects, and will set back the agricultural community that has benefitted from investments in methane capture for RNG production, as well as the fleets that use RNG to reduce their emissions. More critically, however, there is a direct line between a unilateral decision by CARB to restrict delivery of RNG to California through changes to deliverability and phasing out avoided methane emissions accounting for dairy (and other animal manure) RNG projects and increased methane emissions from the agricultural sector. Accordingly, any such proposed change will likely set us back in our collective goals to improve our environment.

Conclusion

SJI appreciates the opportunity for continued engagement on these topics that are critical to achieve the decarbonization goals that we share. We remain committed to providing RNG to the LCFS market and helping to reduce methane emissions, improve animal manure management in agricultural communities, and decarbonize California's transportation sector. We thank CARB for your continued work toward this end and look forward to a robust and effective LCFS rulemaking.

Sincerely,



Donna Schempp

President & COO, SJI Renewable Energy Ventures

SVP, SJI Energy Enterprises Group

